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July 20, 2022

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Rettig,

I write today with urgency regarding a recent article in *The New York Times* about the haphazard approval process for tax-exempt organizations described in Section 501(c)(3) of the Internal Revenue Code.¹ The article states that a “convicted stock market fraudster” successfully applied for tax exemptions for 76 phony nonprofit charities, many of which used names almost indistinguishable from well-known nonprofits. Fifty-six of the approved fraudulent organizations applied using Internal Revenue Service (IRS) Form 1023-EZ, which requires minimal information from applicants. This should never have happened.

Although Form 1023-EZ was developed to curtail an increasing backlog of exempt organization applications, it seemingly led to fraudulent applications being approved with lax oversight by the IRS. A 2019 study by the Taxpayer Advocate Service found that 46% – nearly half – of approved applicants did not actually pass the “organizational test” required by statute to establish legitimacy as a charitable organization.² Once approved, bogus charities scam unwitting donors who trust IRS-certified 501(c)(3) organizations to be properly vetted and legitimate. The IRS has failed these citizens.

To help the Ways and Means Subcommittee on Oversight better understand how the IRS processes applications for tax exemption, please provide answers to the following questions by August 3, 2022:

¹ David Fahrenthold, Troy Olson, and Julie Tate, *76 Fake Charities Shared a Mailbox. The I.R.S. Approved Them All*, *The New York Times* (July 3, 2022), <https://www.nytimes.com/2022/07/03/us/politics/irs-fake-charities.html>.

² Taxpayer Advocate Service, *Study to the Extent to Which the IRS Continues to Erroneously Approve Form 1023-EZ Applications* (Jan. 8, 2020), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_04_StudyExtent.pdf.

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1. For both Forms 1023-EZ and Forms 1023, please provide the following: (a) the number of applications received each year since 2015; (b) the number of applications approved; (c) the number of applications rejected; (d) the number of applications returned for additional information that then provided such information; and (e) the number of applications returned for additional information that failed to provide such information.
2. Describe the procedures for processing Forms 1023-EZ, including who reviews the application, the average amount of time (number of hours) to review the application, and the number of days, on average, from receipt to IRS's determination. What steps are taken when there is suspected fraud?
3. Describe the current oversight of the tax-exempt organization application process. What happens with respect to an application when the IRS is notified of concerns by individuals, the media, law enforcement, state tax agencies, or other organizations?

Additionally, I request a briefing for my staff on this issue and expect your prompt attention to this matter.

Sincerely,


Bill Pascrell, Jr., *Chair*
Subcommittee on Oversight